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Mexico

Sugar

Annual Report

2004

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Report Highlights:

The sugar production forecast for MY 2004/05 has not been set, but it is expected to be higher than 5.4 MMT. Sugar production for MY 2003/04 was revised upward to 5.51 million metric tons (MMT), due to good weather and improved production practices. Sugar imports for MY 2004/05 are expected to decrease compared to MY 2003/04 imports. Human domestic sugar consumption for MY 2004/05 is forecast to remain high, due to continued demand from the soft drink industry.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Table of Contents

SECTION I. SITUATION AND OUTLOOK.....	3
SUGAR PRODUCTION	3
HFCS PRODUCTION	3
SUGAR AND HFCS CONSUMPTION	4
SUGAR TRADE.....	4
HFCS TRADE.....	5
STOCKS	6
SECTION II. STATISTICAL TABLES.....	7
Centrifugal Sugar Table	7
Sugarcane for Centrifugal Sugar	8
Sugar Prices.....	9
Trade Matrixes.....	9
Sugar Tariffs	11

SECTION I. SITUATION AND OUTLOOK

SUGAR PRODUCTION

The Mexican sugar industry has not yet set a sugar production estimate for MY 2004/05 (October/September), however, sugar production is forecast to reach at least 5.4 million metric tons (MMT) raw value. This forecast is based on the relatively good weather experienced during the growing season. However, production will also depend on timely maintenance for the sugar mills, and the availability of credit and incentives to keep the business growing.

There is still uncertainty in the sugar sector, due to the Mexican government's inability to follow its overall sugar policy for the industry and due to the as-yet unresolved issues pertaining to the expropriation of the sugar mills. Government compensation for the mills has not yet been paid to the previous owners, in part due to the owners' filing of court injunctions against the government's plans to reprivatize the mills. Furthermore, in February 2004, the government lost the court injunctions of four sugar mills, which were subsequently returned to their previous owners. Of the 27 mills expropriated by the Mexican government, the government so far owns 13 mills. Although it has announced the reprivatization of these mills, no compensations have yet been paid to the mill owners. The court cases of other mills are still in the process of resolution. The government believes that the mills have increased in value, due to better industry reorganization. However, there are some analysts who believe that the government should close some of the more inefficient sugar mills instead of selling them.

Planted sugarcane area for MY 2004/05 is forecast to increase slightly as some higher technology mills are increasing area planted and field fertilization, due to higher demand. Virtually all sugarcane goes to the production of centrifugal sugar. The sugarcane harvest occurs between December and May. Cane yields for MY 2004/05 are forecast to be almost 73 MT/ha, due to expected good weather conditions and more efficient production techniques. Sugar yields continue to be good, due to improvements in harvesting and milling techniques. Sugarcane costs of production vary according to the region, ranging from 10,000 to 12,000 pesos/ha. (US\$900 to \$1,080/ha.).

Sugar production for MY 2003/04 has been revised upward to 5.5 MMT raw value, based on recent sugar industry information. The sugar industry indicates that this increase is a result of good weather, better technology used in the mills, good maintenance and government investment in their sugar mills. The government has indicated that the objective of the expropriation was to first make the sugar mills more productive and profitable and to then privatize them again. However, the chocolate manufacturers and the soft drink industries are more conservative on the sugar production estimates and believe sugar production will be about 5.3 MMT raw value for MY 2003/04. Planted and harvested sugarcane area for MY 2003/04 remains unchanged. Cane yields for MY 2003/04 are estimated at 73 MT/Ha. Mill yields for MY 2003/2004 are expected to be similar to MY 2002/03 yields of 11.21 percent. Sugar production for MY 2002/03 remains unchanged as does planted and harvested sugarcane area.

HFCS PRODUCTION

High fructose corn syrup (HFCS) production for CY 2004 is forecast to be between 130,000 to 140,000 MT dry basis, due to the continued imposition of the 20-percent tax on HFCS-containing beverages and based on the assumption that no resolution will be reached in the U.S.-Mexico sweetener dispute. Mexican HFCS production for CY 2003 is estimated at about 130,000 MT dry basis. Those companies manufacturing HFCS in Mexico have indicated that

the tax has harmed industry investment and at least one company continues to seek legal redress in the Mexican courts. U.S. corn imports, used in the local manufacture of HFCS, have also been adversely affected by the HFCS beverage tax. Mexican production of HFCS is not published by official sources and companies treat it as confidential information.

During the debates in the Mexican Congress to restructure the 20-percent tax on HFCS-containing beverages at the end of 2003 and, despite efforts from different interested parties in Mexico to have Congress remove the tax, the Mexican Congress voted on December 31, 2003, to continue the tax in its original form. This decision was subsequently published in a *Diario Oficial* announcement of the same date under the 2004 Law of Special Taxes on Production and Services (see report MX4010).

SUGAR AND HFCS CONSUMPTION

Sugar for human domestic consumption for MY 2004/05 is forecast at 5.3 MMT raw value. This forecast is based on the assumption that the bottling industry will continue using mostly sugar, due to the 20-percent duty on HFCS-containing beverages. According to the soft drink industry, soda consumption increased between 2 and 2.5 percent in CY 2003 and is expected to grow 3.5 percent or more in CY 2004. Sugar for human domestic consumption for MY 2003/04 was revised upward to 5.2 MMT raw value, due to increased usage of sugar over HFCS by the soft drink industry because of the 20-percent tax on HFCS use in beverages. The soft drink industry and the chocolate manufacturers believe that sugar supplies will be tight again for MY 2003/04 and that there will not be enough refined sugar for their needs. The belief that MY 2002/03 ending stocks would be short and not of the quality needed by end users led the government to authorize a tariff-rate-quota for refined sugar to supply the market from October to December of 2003. Sugar for human domestic consumption for MY 2002/03 was revised slightly upward based on final official data.

According to the industry, HFCS consumption for CY 2004 is forecast to be between 130,000 to 140,000 MT dry basis, as only the bakery, food processing, fruit and juice canning, and yogurt industries continue to use fructose. HFCS consumption for CY 2003 is estimated at 130,000 MT. The soft drink industry had been the largest HFCS user in Mexico prior to the imposition of the 20-percent HFCS beverage tax in January 2002. According to industry information, total domestic HFCS consumption for CY 2001 was about 600,000 MT – an indication of what the level of HFCS consumption in Mexico would be if the 20-percent duty on HFCS-containing beverages were lifted.

SUGAR TRADE

Sugar exports for MY 2004/05 under the “other disappearance” category is forecast at about 130,000 MT raw value for the Mexican re-export program (PITEX). The PITEX program allows domestically-produced sugar to be sold as raw material for further processing to Mexican food manufacturers, who buy the sugar at about the world price. The food manufacturers must process the sugar within three months of the date of purchase and then must export the final processed product. Given this process, the GOM classifies the sugar sold under the PITEX program as exports. The underlying rationale behind the PITEX program is to allow Mexican sugar mills to fulfill their export quota while at the same time maintaining some flexibility with regard to domestic sugar supplies. This enables the industry to avoid the situation that would result from selling raw sugar on the world market and then importing it back, should there be an unexpected domestic shortage. Also, sugar mills and processors avoid transportation expenses.

The estimate for MY 2003/04 sugar exports under the “other disappearance” category was revised downward to 130,000 MT raw value from previous estimates, as this is the amount of

domestic sugar that has been destined for use by PITEX. However, according to some sources, PITEX sugar could reach a total estimate of 163,000 MT for MY 2003/04, including part of the refined exports. Other sugar end users believe PITEX sugar exports could be even higher. The estimates for MY 2002/03 sugar exports under the “other disappearance” category remain unchanged.

Total sugar exports for MY 2004/05 are forecast to be at about 66,000 MT, the same level as in MY 2003/04. Total sugar export estimates for MY 2003/04 remain unchanged. Both marketing year estimates, however, will be dependent on final sugar production figures, the outcome, if any, of U.S.-Mexico sweetener negotiations, and substitution by alternative domestic and imported sweeteners. At the writing of this report, the U.S. and the Mexican governments, as well as the sweeteners industries of both countries, are continuing negotiations on the final amount of duty-free sugar to be shipped to the U.S. as well as access for HFCS.

The Mexican industry had been exporting excess sugar to the world market on a per mill-quota basis to prevent downturns in domestic sugar prices until MY 2002/03, when it started consuming more sugar domestically. MY 2002/03 total sugar exports were revised downward from previous estimates as more sugar was consumed domestically. It should be noted that this increase in sugar consumption coincided with the imposition of the 20-percent HFCS tax.

Total sugar imports for MY 2004/05 are forecast to be lower compared to MY 2003/04 due to adequate sugar inventories. Total sugar imports for MY 2003/04 were revised upward from previous estimates, mainly for refined sugar. Most refined imports were done under the official sugar TRQ that Mexico announced on September 27, 2003 (see report MX 3128). The objective of this measure was to ensure enough strategic reserves to meet domestic demand, in case domestic sugar stocks were insufficient during the balance of CY 2003 (September 27 – December 31, 2003). Government authorities also indicated that one of the motives for implementing this measure was to deter price speculation and sugar price increases at the end of 2003. In fact, wholesale prices for refined sugar stopped increasing and remained close to \$360.00/ pesos/50 kg (US\$31.85/50 kg) from October to December 2003. The sugar industry indicated that of the total 112,000 MT that was allowed to enter under the TRQ, about 70,000 MT were in fact imported under this category from October to December 2003, mainly from Brazil. However, according to the Cane Sugar Producers Association, other sugar imports from Guatemala, Brazil and Colombia were brought into Mexico under ambiguous court injunctions that allowed sugar imports to enter duty-free; the volume amounts of these sugar imports could not be confirmed. Total sugar imports for MY 2002/03 were revised slightly downward to reflect official trade data.

HFCS TRADE

Due to the imposition of the 20-percent duty on HFCS-containing soft drinks and beverages and given the assumption that it will remain in place, HFCS imports for CY 2004 are forecast to continue to be insignificant as they were for CY 2003 – at approximately 7,121 MT. The Secretariat of Economy has not determined the amount of the CY 2004 HFCS quota nor how the import permit system for U.S. HFCS imports will function, since there has been no resolution of the U.S.-Mexico sweetener dispute. It should be noted that on March 17, 2004, USTR announced it had filed a demand at the WTO against Mexico over the 20-percent tax on HFCS-containing beverages. U.S. HFCS imports have decreased 97 percent since the imposition of the HFCS tax in January 2002 (HTS categories 1702.40 and 1702.60).

STOCKS

Stocks for MY 2004/05 are forecast to be enough to ensure strategic reserves, a level approximating three months of consumption. Sugar stock levels for MY 2003/04 were revised upward due to larger sugar imports under the TRQ to prevent sugar shortages by the end of 2003. Ending stocks for MY 2002/03 were adjusted slightly upward reflecting lower exports.

SECTION II. STATISTICAL TABLES

Centrifugal Sugar Table

Mexico						
Centrifugal Sugar						
(1000 MT)	2003 Revised		2004 Estimate		2005 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	10/2002		10/2003		10/2004	
Beginning Stocks	1172	1172	1193	1194	0	1401
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	5229	5229	5464	5517	0	5410
TOTAL Sugar Production	5229	5229	5464	5517	0	5410
Raw Imports	4	1	4	1	0	1
Refined Imp.(Raw Val)	61	62	99	105	0	20
TOTAL Imports	65	63	103	106	0	21
TOTAL SUPPLY	6466	6464	6760	6817	0	6832
Raw Exports	6	12	6	6	0	6
Refined Exp.(Raw Val)	40	26	60	60	0	60
TOTAL EXPORTS	46	38	66	66	0	66
Human Dom. Consumption	5092	5097	5195	5220	0	5350
Other Disappearance	135	135	150	130	0	130
Total Disappearance	5227	5232	5345	5350	0	5480
Ending Stocks	1193	1194	1349	1401	0	1286
TOTAL DISTRIBUTION	6466	6464	6760	6817	0	6832

Sugarcane for Centrifugal Sugar

Mexico						
Sugar Cane for Centrifugal						
(1000 MT) (1000 Ha.)	2003 Revised		2004 Estimate		2005 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	11/2002		11/2003		11/2004	
Area Planted	700	700	700	700	0	715
Area Harvested	606	606	609	609	0	610
Production	43948	43948	44500	44500	0	44500
TOTAL SUPPLY	43948	43948	44500	44500	0	44500
Utilization for Sugar	43948	43948	44500	44500	0	44500
Utilization for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	43948	43948	44500	44500	0	44500

Sugar Prices

SUGAR PRICES UNITS: 50 KG. BULK/PESOS						
MONTH	STANDARD		CHANGE %	REFINED		CHANGE %
	2003	2004		2003	2004	
JANUARY	268.50	309.70	15.34	310.81	345.00	11.00
FEBRUARY	266.46	296.25	11.17	310.73	340.00	9.41
MARCH	265.01	288.45*	8.84	308.13	330.00*	7.09
APRIL	270.04	N/a	N/a	313.20	N/a	N/a
MAY	273.14	N/a	N/a	315.26	N/a	N/a
JUNE	278.50	N/a	N/a	320.36	N/a	N/a
JULY	285.05	N/a	N/a	334.24	N/a	N/a
AUGUST	287.64	N/a	N/a	339.84	N/a	N/a
SEPTEMBER	294.90	N/a	N/a	363.00	N/a	N/a
OCTOBER	302.40	N/a	N/a	360.00	N/a	N/a
NOVEMBER	303.75	N/a	N/a	365.00	N/a	N/a
DECEMBER	319.10	N/a	N/a	360.00	N/a	N/a

Source: Servicio Nacional de Informacion de Mercados SNIIM-ECONOMIA

2003 Avg. Exchange Rate US\$1.00=\$11.19 pesos

2004 Exchange Rate March 22, 2004 US\$1.00=\$10.98 pesos

* As of 3^{er} week of March, 2004

Trade Matrixes

SUGAR H.S. 1701		UNITS: METRIC TONS	
EXPORTS FOR CY 2003 TO:		IMPORTS FOR CY 2003 FROM:	
U.S.	14,557	U.S.	57,716
OTHER		OTHER	
UNITED KINGDOM	11,213	BRAZIL	74,368
TOTAL OF OTHER	11,213	TOTAL OF OTHER	74,368
OTHERS NOT LISTED	858	OTHERS NOT LISTED	46,421
GRAND TOTAL	26,628	GRAND TOTAL	178,505

SOURCE: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, December 2003.

NOTE: EXPRESSED VALUES FOR H.S. 1701 CONSOLIDATES THE FOLLOWING SUBHEADINGS:

1701.11.00 1701.11.01 1701.11.02 1701.11.03 1701.11.99 1701.12.01 1701.12.99
1701.12.02 1701.12.03 1701.91.00 1701.91.01 1701.99.01 1701.99.02 1701.99.03 &
1701.99.99

HFCS 1702.40		Subheading	UNITS: METRIC TONS	
EXPORTS FOR CY 2003 TO:			IMPORTS FOR CY 2003 FROM:	
U.S.		18,619	U.S.	2,058
OTHER			OTHER	
GUATEMALA		62	FRANCE	3
TOTAL OF OTHER		62	TOTAL OF OTHER	3
OTHERS NOT LISTED		28	OTHERS NOT LISTED	1
GRAND TOTAL		18,709	GRAND TOTAL	2,062

SOURCE: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, December 2003.

NOTE: EXPRESSED VALUES FOR H.S. 1702.40 CONSOLIDATES THE FOLLOWING SUBHEADINGS: 1702.40.00, 1702.40.01 & 1702.40.99.

HFCS 1702.60		Subheading	UNITS: METRIC TONS	
EXPORTS FOR CY 2003 TO:			IMPORTS FOR CY 2003 FROM:	
U.S.		7,251	U.S.	5,063
OTHER			OTHER	
GERMANY		656	GERMANY	0
TOTAL OF OTHER		656	TOTAL OF OTHER	0
OTHERS NOT LISTED		226	OTHERS NOT LISTED	0
GRAND TOTAL		8,133	GRAND TOTAL	5,063

SOURCE: Global Trade Information Services, Inc. World Trade Atlas Mexico Edition, December 2003.

NOTE: EXPRESSED VALUES FOR H.S. 1702.60 CONSOLIDATES THE FOLLOWING SUBHEADINGS: 1702.60.00, 1702.60.01 1702.60.02 & 1702.60.99.

Sugar Tariffs

MEXICAN SUGAR IMPORT TARIFFS FOR 2004		
H.T.S. TARIFF # SUBHEADING	NAFTA Tariffs for U.S. Commodities DOLLARS/Kg ①	SPECIFIC TARIFF FOR THIRD COUNTRY COMMODITIES DOLLARS/Kg
1701.11.01	0.31668	0.39586
1701.11.99	0.31668	0.39586
1701.12.01	0.31668	0.39586
1701.12.99	0.31668	0.39586
1701.91.01	0.31668	0.39586
1701.99.01	0.31668	0.39586
1701.99.99	0.31668	0.39586
1702.90.01	0.31668	0.39586
1806.10.01	0.31668	0.39586
2106.90.05	0.31668	0.39586

Source: Secretariat of Economy

① Note: The sugar importer must have a written statement from the exporter that certifies that the product has not benefited from the U.S. Sugar Re-export Program. If the importer has this statement, then the sugar-containing products covered by these tariff lines will be subject to a tariff that is derived by multiplying the regular "most favored nation" (MFN) tariff in effect at the time of importation by a factor of 0.8. If the importer does not have that written statement, then the merchandise will be subject to the regular MFN tariff without any reduction.